



VTech Holdings Limited

FY2019 Annual Results Announcement

20 May 2019

Financial Review



Financial Highlights

For the year ended 31 March

(US\$ M)

2019

2018

Change

Revenue

2,161.9

2,130.1

1.5%

Gross Profit

636.4

702.0

-9.3%

Gross Profit Margin %

29.4%

33.0%

-3.6% pts

Operating Profit

193.2

231.3

-16.5%

Operating Profit Margin %

8.9%

10.9%

-2.0% pts

**Profit Attributable to Shareholders
of the Company**

171.3

206.3

-17.0%

Net Profit Margin %

7.9%

9.7%

-1.8% pts

Basic Earnings per Share (US cents)

68.2

82.1

-16.9%

Dividend per Share (US cents)

• Interim

17.0

17.0

• Final

50.0

63.0

• Total dividend for the year

67.0

80.0

-16.3%

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> INNOVATION BEYOND TECHNOLOGY

Revenue by Region

For the year ended 31 March

(US\$ M)	2019	%	2018	Change
North America	994.5	46.0	1,041.0	-4.5%
Europe	882.9	40.8	849.1	4.0%
Asia Pacific	248.6	11.5	197.1	26.1%
Other Regions	35.9	1.7	42.9	-16.3%
Total	2,161.9	100.0	2,130.1	1.5%

vtech | Working Capital

(US\$ M)

31/03/19

31/03/18

Stocks

369.9

349.9

Stocks Turnover Days

100 days

102 days

Trade Debtors

263.0

264.9

Trade Debtors Turnover Days

65 days

65 days

(US\$ M)	31/03/19	31/03/18
Deposits and Cash	237.0	254.4
Total Borrowings	-	-
Net Cash Position	237.0	254.4

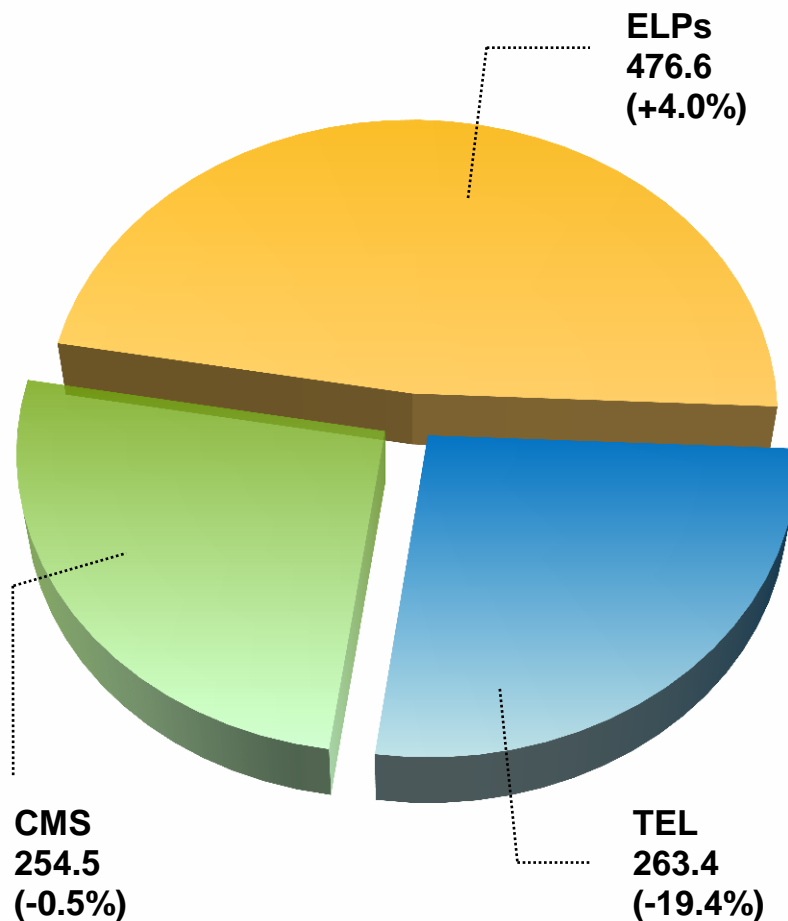
Operations Review

- **Gross profit margin fell from 33.0% to 29.4%**
 - Higher materials prices, in part from tight supply of certain components
 - Product mix
 - Rise in direct labour costs and manufacturing overheads

- In FY2019, US\$250 billion of goods from China to the US subjected to additional tariffs of 10%-25%
- Tariffs on US\$200 billion of Chinese imports raised to 25% on 10 May 2019
- Negotiations continue between the two countries
- VTech ELPs and TEL products not subject to such tariffs
- A number of CMS customers in the US affected, with some making plans to move part of their production to VTech's new facilities in Malaysia

vtech | North America

Revenue by Product Line (US\$ million)



- Revenue decreased 4.5% to US\$994.5 million, 46.0% of Group revenue
- Higher ELPs sales unable to offset lower revenues of TEL products and CMS
- **ELPs** revenue rose by 4.0% to US\$476.6 million
 - Growth despite Toys“R”Us closure, owing to expansion by other retailers, more sales to second-tier retailers and new product launches
 - Strengthened the position as no.1 manufacturer of electronic learning toys from infancy through toddler and preschool in the US

vtech | North America (continued)

- **Standalone Products:**
 - Sales up on growth in VTech and LeapFrog brands
 - **LeapFrog:** Strong growth on strategy to expand the standalone toy business by new product launches
 - **VTech:** Higher sales of preschool products offset decline in Go! Go! Smart family of products



vtech | North America (continued)



- **Platform Products:**

- Sales decreased
- **VTech:** Sales increased on strong sell-through of Kidizoom Smartwatch DX2 and KidiBuzz
- **LeapFrog:** Higher sales of LeapFrog reading systems insufficient to offset lower sales of children's educational tablets
- Steady growth for LeapFrog Academy



- **TEL** products revenue decreased by 19.4% to US\$263.4 million
- **Residential Phones:**
 - Decline of fixed-line telephone market
 - Keen competition and supplier consolidation by retailers led to loss of shelf space in club and consumer electronics channels
 - Maintained leadership position in US residential phones market

vtech | North America (continued)

- **Commercial Phones and Other Telecommunication Products:**
 - Higher sales of headsets and hotel phones insufficient to offset lower sales of VoIP phones, baby monitors and wireless monitoring systems
 - **Headsets:** Benefited from launch and strong sell-through of world's first 100% voice-controlled headsets
 - **Hotel phones:** Maintained growth on new projects

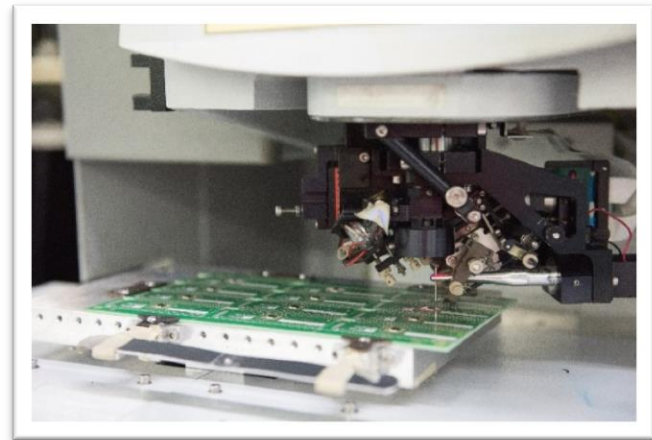


- **Commercial Phones and Other Telecommunication Products:**
 - **VoIP phones:** Lower sales due to product delay
 - **Baby monitors:** Overall sales decline on lower orders from a customer
 - **Wireless monitoring systems:** Lower sales of Wi-Fi IP cameras



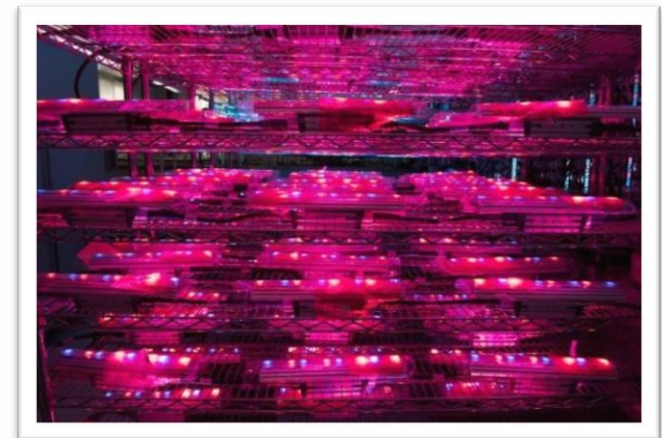
vtech | North America (continued)

- **CMS** revenue down 0.5% to US\$254.5 million
- Higher sales of industrial products and medical and health products offset by lower sales of solid-state lighting and communication products
- Sales of professional audio equipment stable



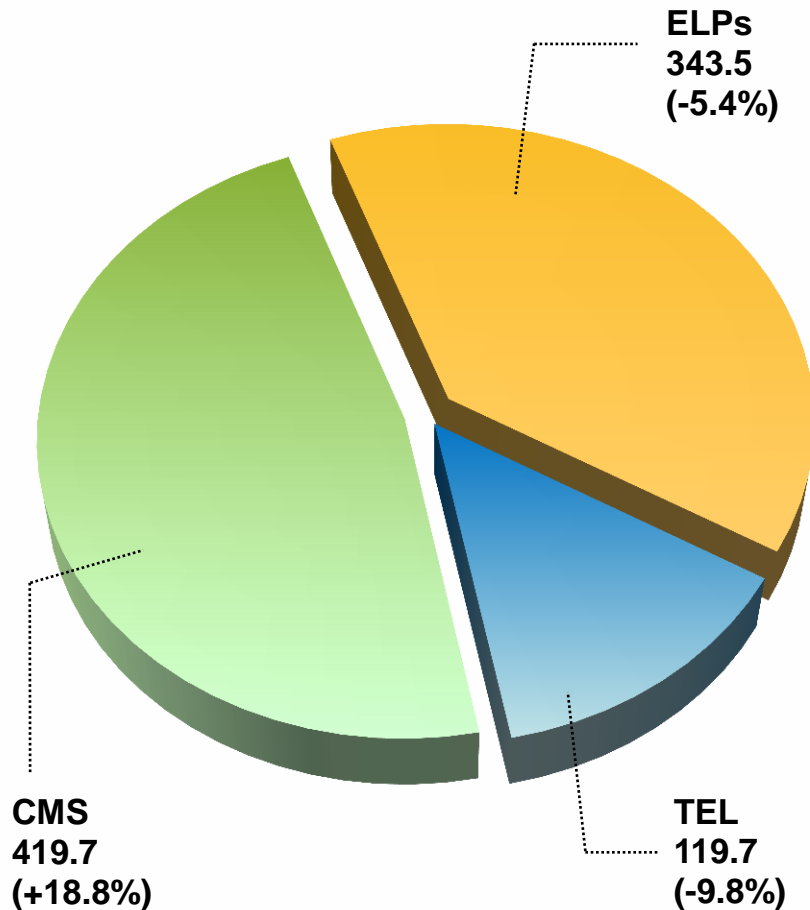
vtech | North America (continued)

- **Industrial products:** Increased orders for PCB assembly for note counting devices and industrial printers
- **Medical and health products:** Sales rose on more orders for hearing aids
- **Solid-state lighting:** Affected by keen competition faced by customers
- **Communication products:** Sales declined as customer's product line reached end of life cycle



vtech | Europe

Revenue by Product Line (US\$ million)



- Revenue up 4.0% to US\$882.9 million, 40.8% of Group revenue
- Higher sales of CMS offset lower ELPs and TEL products revenues
- ELPs revenue down 5.4% to US\$343.5 million
 - Sales lower in all markets, on tough market conditions
 - Toys“R”Us closed in UK, financial problems at some European retailers, logistics issues in continental Europe in 1H
 - Maintained position as no. 1 infant and toddler toy manufacturer in France, UK and Germany

- **Standalone Products:**
 - **VTech:** Sales decreased on tough market conditions and logistics issues
 - **LeapFrog:** Stable sales
 - Launch of LeapBuilders/BlaBla Blocks
 - Marks expansion into building set category



- **Platform Products:**

- Sales lower for both brands
- **VTech:** Higher sales of Kidizoom Smartwatches, augmented by updated Touch and Learn Activity Desk
- **LeapFrog:** Continued growth in LeapFrog reading systems supported by launch of LeapStart 3D in UK
- These gains insufficient to offset lower sales of KidiCom Max and children's educational tablets





- **TEL** products revenue decreased by 9.8% to US\$119.7 million
 - Sales of residential phones, commercial phones and other telecommunication products decreased
- **Residential Phones:**
 - Sales declined as fixed-line telephone market contracted further

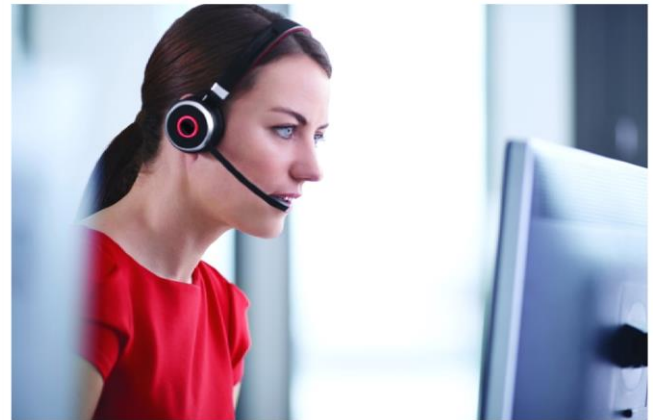


- **Commercial Phones and Other Telecommunication Products:**
 - **VoIP phones:** Continued to expand, with positive reception for new Snom products
 - **Hotel phones:** Stable sales
 - **Baby monitors:** Lower sales on order reduction by a major customer
 - **CAT-iq handsets:** Sales decline on lower sales at existing customers
 - **IADs:** Sales decreased on reduction in orders by a customer



vtech | Europe (continued)

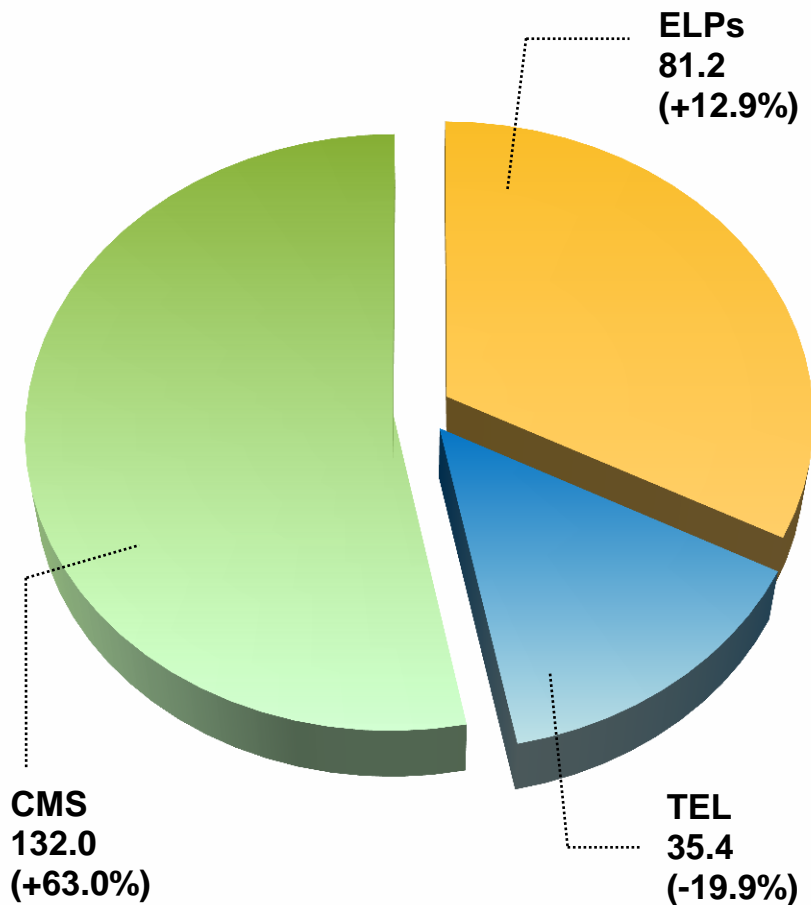
- **CMS** revenue up 18.8% to US\$419.7 million
- Growth across the board
 - **Hearables:** Strong growth on market share gains, plus new product launches and good sell through of products
 - **Professional audio:** Boosted by increased orders



- **Industrial products:** More orders for internet-connected smart thermostats and air-conditioning controls, new smart meters in UK
- **Home appliances:** Increased demand for electric ovens in Italy, market share gains by a major customer in Russia
- **Communication products:** More orders for network routers



Revenue by Product Line (US\$ million)



- **Revenue rose by 26.1% to US\$248.6 million, 11.5% of Group revenue**
- Higher sales of ELPs and CMS offset lower sales of TEL products
- **ELPs** revenue up 12.9% to US\$81.2 million
- Led by continued growth in mainland China and Australia, plus higher LeapFrog sales in other AP markets

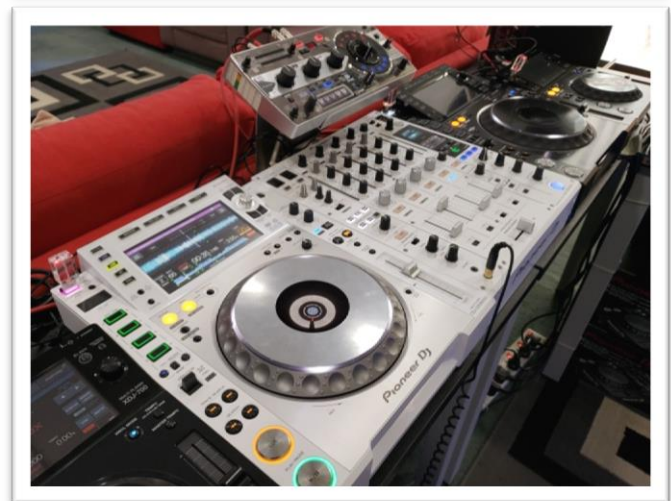
- **Mainland China:** Growth driven by higher sales of infant and toddler products, new product launches and channel expansion
 - New KidiSchool line, targeting early education segment, especially well received
 - Higher penetration among maternity-infant-child specialty retailers and e-commerce retailers
 - Benefited from Toys“R”Us expansion
- **Australia:** Growth in both VTech and LeapFrog brands, with broader listings and improved channel management





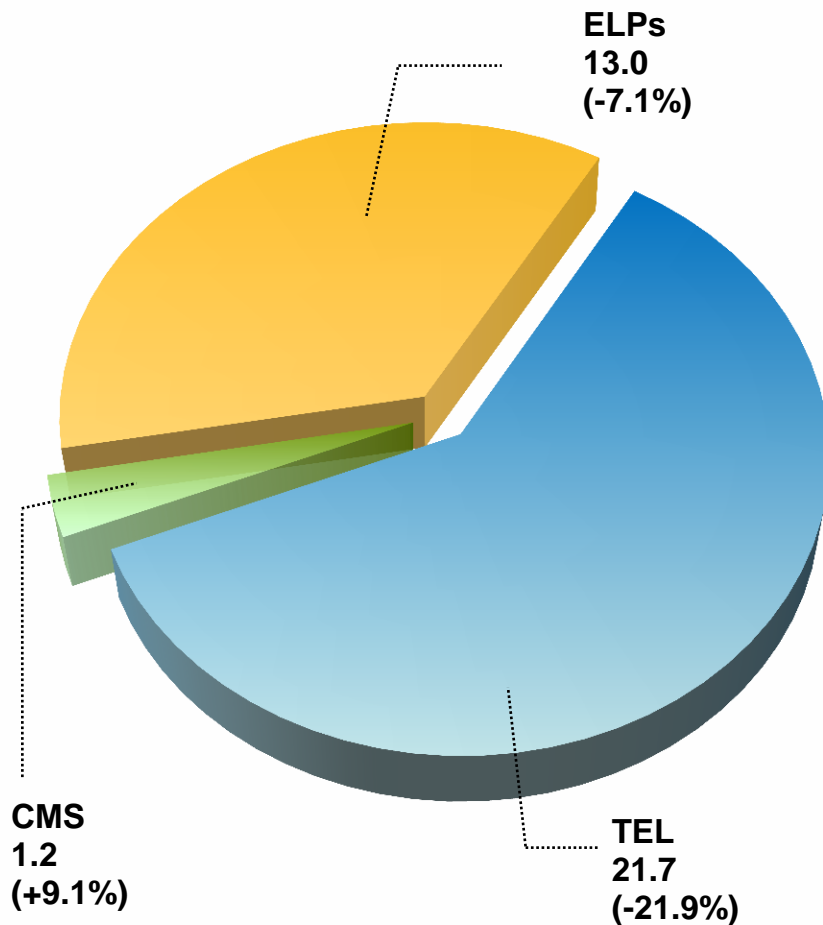
- **TEL** products revenue fell 19.9% to US\$35.4 million, as lower sales in Japan, Australia, Hong Kong offset growth in Malaysia
 - **Japan:** Lower shipment of cordless phones on customer's financial problems
 - **Australia:** Lower sales of cordless phones offset growth in baby monitors
 - **Hong Kong:** Lower sales of cordless phones and IADs
 - **Malaysia:** Sales increased as VTech became key cordless phone supplier to a major local telephone company

- **CMS** revenue up 63.0% to US\$132.0 million
- Higher sales of professional audio equipment, medical and health products and home appliances offset lower sales of communication products and hearables
 - **Professional audio:** Boosted by six month contribution from DJ equipment business
 - **Home appliances:** Additional revenue from one new customer
 - **Medical and health products:** Higher orders for diagnostic ultrasound systems
 - **Communication products:** Lower orders for marine radios
 - **Hearables:** Affected by keen competition in wireless headsets market



vtech | Other Regions

Revenue by Product Line (US\$ million)



- **Revenue down 16.3% to US\$35.9 million, 1.7% of Group revenue**
- Lower sales of ELPs and TEL products offset higher sales of CMS
- **ELPs** revenue down 7.1% to US\$13.0 million. Higher sales in Latin America unable to compensate for lower sales in Middle East and Africa
- **TEL** products revenue declined by 21.9% to US\$21.7 million on lower sales in all three regions
- **CMS** revenue was US\$1.2 million, as compared to US\$1.1 million in FY18

Outlook

- Group revenue difficult to gauge in FY2020
- New tariffs may potentially be applied
- VTech now assessing the impact and taking steps to mitigate it
- Pressure on materials prices to abate, labour costs to be stable

ELPs

- Aim to strengthen market leadership in North America and Europe through new product launches
- **Standalone Products:**
 - Expansion of core learning products
 - Introduction of first robotics toy, Myla the Magical Unicorn
 - Launch of LeapBuilders



- **Platform Products:**

- LeapFrog brand to introduce RockIt Twist, brand new handheld gaming product
- LeapStart Go to strengthen LeapStart range
- New KidiBuzz/KidiCom Max, with augmented reality games and live face-tracking photo filters, to be introduced in US and UK

- Continued growth in Australia and mainland China to support higher sales in Asia Pacific



TEL Products

- Core strategy to stabilise revenue through more new product introductions
- Sales of commercial phones and other telecommunication products forecast to increase
 - **VoIP phones:** New Snom product line launched in FY2019 to be joined by new cordless conference phone with wireless microphones
 - **Headsets:** Momentum to continue on more new product launches



- **Commercial phones and other telecommunication products:**
 - **Hotel phones:** Supported by addition of customers in Macau and New Zealand
 - **Baby monitors, CAT-iq handsets, IADs:** Will benefit from new product launches
- **Residential phones:** Sales decline to slow as VTech recoups some lost market share



CMS

- On track for 18th consecutive year of growth, subject to further trade developments between US and China
- **Professional audio:** To be boosted by rising sales at existing customers and the contribution of the new DJ equipment business
- **Hearables:** Strong momentum to continue
- **Industrial products:** Orders for internet-connected smart thermostats and air-conditioning controls expected to rise
- **Medical and health products:** VTech to manufacture finished products of hearing aids



- New initiatives will help CMS expand revenue and lower costs:
 - NPI (New Product Introduction) Centre
 - Enhance supplier management



Thank You